

PUBLIC DISCLOSURE

February 11, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mellon 1st Business Bank
23406**

**601 West 5th Street
Los Angeles, California 90071**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Mellon 1st Business Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 11, 2002**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

This evaluation reflects the bank's CRA accomplishment since the November 29, 1999 Performance Evaluation. The evaluation was conducted at the bank's office headquartered in Los Angeles, California. The evaluation relied on records and reports provided by the bank, publicly available loan and financial information, demographic information, and information gathered as part of the examination process, including community contacts.

Prior public evaluations reflect a satisfactory record of CRA performance within the bank's communities, including those geographies designated as low- and moderate-income areas.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Mellon 1st Business Bank (MFBB) demonstrates an overall good responsiveness to the credit and community development needs of its assessment areas. The evaluation of MFBB's performance includes activities in Los Angeles County, Orange County and a portion of San Diego County, with particular weight on performance in the Los Angeles/Orange County assessment area. The following bullet points summarize the institution's overall CRA performance.

Lending Test

- A high percentage of small business loans were extended within the institution's assessment areas (AAs).
- The distribution of small business loans reflects good dispersion throughout the assessment areas. There are no conspicuous gaps in the geographic distribution of small business loans.
- A high percentage of the small business loans reported had original balances of less than \$100,000.
- The bank maintains a high-level community development lending record. The level of lending activity reflects a good response to the identified credit needs of small businesses and low- and moderate-income (LMI) individuals and geographies within the assessment areas.
- The institution has utilized flexible lending practices to meet community credit needs on a limited basis.

Investment Test

- The bank's level of qualified community development investments and grants reflect an excellent level of response to credit and community economic development needs within the assessment area.
- The bank's investments are highly diversified to meet a variety of community credit needs including affordable housing and community development projects within the bank's assessment areas.

Service Test

- The branch locations, banking hours, and alternate delivery systems are accessible to essentially all portions of the bank's assessment areas.
- Services and business hours do not vary in a way that inconveniences portions of the bank's assessment areas, particularly LMI geographies or individuals.
- The institution is a leader in providing community development services within the assessment areas.
- A high percentage of employees participate in providing community development services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

*The following table indicates the performance level of **Mellon 1st Business Bank** with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	Mellon 1st Business Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding		X	
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION

Mellon 1st Business Bank (MFBB) is a subsidiary of Mellon Financial Corporation, a multi-bank holding company headquartered in Pittsburgh, Pennsylvania. MFBB is headquartered in Los Angeles, California, and currently operates five branch offices in the Counties of Los Angeles and Orange. The San Diego branch was closed on December 18, 2001 but is included in this evaluation. The Orange County Office was relocated and a loan production office was opened in Riverside County during this evaluation.

The institution is primarily a commercial lender, extending loans to large, medium, and small companies, professionals, and entrepreneurs. The bank's business strategy is a middle-market lender serving businesses with gross annual revenues exceeding \$5 million. In addition to commercial loan services, the bank provides a full range of deposit products and cash management services to its customers. Affiliate businesses of Mellon Financial Corporation provide other services to customers including trust, asset management, jumbo mortgages, insurance premium financing, and capital markets products. MFBB offers consumer loans and residential mortgages as an accommodation to its existing commercial borrowers, as retail lending is not part of the institution's overall business strategy.

MFBB operates in a highly competitive environment. There are numerous banks and credit unions headquartered in the assessment areas. However, there are no similarly situated financial institutions to MFBB due to differences in branching networks, product mix (includes affiliate-generated insurance premium financing loans), and areas served.

The December 31, 2001 Consolidated Report of Condition and Income reflects \$1.98 billion in total assets. Loans total \$892 million or approximately 45 percent of assets. The bank's remaining earning assets, totaling \$857 million, are invested in Federal Funds Sold and various types of securities.

MFBB's loan-to-deposit ratio as of year-end December 31, 2001 was 57.1 percent. The loan portfolio is comprised primarily of commercial and commercial real estate loans, representing 79.8 percent of total loans. The bank did originate auto loans through dealers. This portfolio was created as an asset liability management tool. The bank ceased the origination of auto loans through dealers in January 2001.

Table 1 represents the composition of the bank's loan portfolio, as of December 31, 2001.

Table 1 – Loan Portfolio Composition		
LOAN TYPE	DOLLAR AMOUNT (000s)	PERCENT OF TOTAL LOANS
Construction and Land	42,495	4.76
Real Estate-Residential	19,664	2.20
Real Estate-Commercial	380,706	42.66
Commercial and Industrial	331,476	37.15
Acceptances	218	0.02
Individual*	91,994	10.31
All Other	16,912	1.90
Lease Financing	9,376	1.05
LESS: Unearned Income	(471)	(0.05)
Total Loans	892,370	100.00

Source: Consolidated Reports of Condition and Income

*Includes liquidating indirect automobile portfolio of \$81.9 million.

The bank is in a strong financial position and possesses both the ability and capacity to meet the credit and community development needs of the communities it serves. Presently there are no regulatory or legal constraints preventing the bank from meeting its obligations under the CRA. MFBB received a "Satisfactory" CRA rating at the November 29, 1999 FDIC CRA Performance Evaluation.

Table 2 describes the Bank's AAs, including the branches within each of the areas.

Table 2 – Mellon 1st Business Bank Assessment Areas		
AREA NUMBER	ASSESSMENT AREA	BRANCH OFFICES
0001	Los Angeles County – MSA 4480 Orange County – MSA 5945	Los Angeles (Headquarters) Torrance Encino Century City Newport Beach
0002	San Diego County – MSA 7320	San Diego

Source: Bank Records

Scope of Evaluation

MFBB has two assessment areas (AAs) within three MSAs. The analysis of the Los Angeles/ Orange County AA was performed using on-site full scope Large Bank CRA evaluation procedures. The San Diego assessment area was reviewed using limited scope off-site examination procedures.

The bank's January 1, 2000 through December 31, 2001 CRA reportable loans, which includes affiliate small business loans, are used throughout this evaluation. The bank's level of qualified community development loans, investments, and services since the previous FDIC CRA evaluation were also reviewed to assess the bank's performance. The review was limited to loan originations, since the bank has not purchased any loans. Consumer loans were not reviewed, as that category represents an insignificant portion of the bank's lending, especially when the indirect automobile portfolio is excluded. HMDA loans were reviewed but not considered in the bank's overall CRA rating as they are only made on an accommodation basis to existing customers and are limited in number. The limited review revealed that the bank originated only six home mortgage-related loans during the two-year period since the previous FDIC CRA evaluation.

Of the criteria used to determine the bank's performance in the Lending Test, the most weight is given to geographic distribution. This category of the lending test most clearly illustrates the bank's performance relative to serving the needs of its communities.

To determine the community credit needs, seven recently completed community contacts were reviewed. Through these community contacts it was determined that home mortgage loan programs, primarily those that promote affordable housing for low- and moderate-income individuals, small business financing and educational programs, and economic development loans continue to be ongoing credit needs within the bank's assessment areas.

A review of FDIC records, as well as the bank's CRA Public File, did not reveal any complaints relating to the bank's CRA performance since the prior examination.

DESCRIPTION OF THE ASSESSMENT AREAS

MFBB designated assessment areas are in conformance with the CRA regulation. These assessment areas are comprised of 2,315 census tracts contained within the two assessment areas. The assessment areas contain 163 low-income, 518 moderate-income, 835 middle-income, 774 upper-income census tracts and 25 tracts with no income. Low- and moderate-income census tracts account for 29.4 percent of the total number of census tracts, with approximately 33.0 percent of the population residing within these tracts. The resident population of the assessments areas based on the 1990 Census is 12,372,696. This population is comprised of 4,236,658 households of which 254,928 or 6.0 percent are located in low-income census tracts, and 940,446

or 22.2 percent are located in moderate-income census tracts. The AAs consist of whole census tracts and do not arbitrarily exclude any LMI census tracts.

Table 3 shows the two assessment areas in their entirety by geographic income level.

Table 3 – Distribution of Census Tracts Within All Assessment Areas		
Census Tract Type	Number of Census Tracts	% of Total Census Tracts
Low-Income	163	7.0%
Moderate-Income	518	22.4%
Middle-Income	835	36.1%
Upper-Income	774	33.4%
NA	25	1.1%
Total	2,315	100.0%

Source: 1990 US Census

Description of the Los Angeles/ Orange County Assessment Area

This assessment area consists of two contiguous MSAs, Los Angeles-Long Beach MSA 4480 and Orange County MSA 5945. These two MSAs are a part of the larger Los Angeles-Riverside-Orange CMSA 49. Demographic and economic data for each of the two MSAs is presented individually.

Los Angeles-Long Beach MSA 4480

Los Angeles County is wholly contained in MSA 4480. It has a population of 8.9 million in 1,652 census tracts (147 low-income, 377 moderate-income, 544 middle-income, 565 upper-income, and 19 with no income) based upon 1990 U.S. Census data. Low-and moderate-income census tracts account for approximately 32 percent of total tracts. As of December 2001 the population of the MSA according to census projections is 9.4 million. The 2000 and 2001 adjusted median family income is \$52,100 and \$54,500 respectively for the Los Angeles MSA based on estimates from the Department of Housing and Urban Development (HUD). The population is highly diverse with no single ethnic group comprising a majority of the total population.

Los Angeles County has over 324,000 licensed small businesses. The percentage of businesses located in low-and moderate-income census tracts (26.9 percent) is lower than the percentage of tracts. Commercial lending opportunities appear to be consistent across geographies by income level, as reflected in Table 4 below.

Table 4 – Distribution of Small Businesses		
Census Tract	Number of Small Businesses	% of Total
Low-Income	27,924	8.6%
Moderate-Income	59,726	18.3%
Middle-Income	109,339	33.7%
Upper-Income	126,838	39.1%
N/A	1,019	0.3%
Totals	324,846	100.0%

Source: 2001Dunn & Bradstreet.

Top employers include aerospace, health, entertainment, and retail service companies. The employment base is considered very diverse. Table 5 reflects the composition of the area's economy.

Table 5 - Industry by Total Employment and Average Annual Earnings		
	% of Total Employment 2000	Average Annual Earnings Per Employee 1999
Services	33.1	38,775
Manufacturing	15.4	43,846
Retail and Wholesale Trade	22.2	33,799
Government	14.6	46,310
All Other	14.7	N/A

Source: Bureau of Labor Statistics, 2000 and Bureau of Economic Analysis 1999

The events of September 11, 2001 have caused the Los Angeles economy to fall into a slight recession. Before September, the economy had been expanding moderately, but positively. Monthly employment dropped by more than twice the national average, and continued to fall in October, with layoffs in a broad range of industries. Homebuilding has also slowed in recent months.

While Los Angeles' economy is weak, it remains fundamentally in good shape. House price appreciation is still positive both on a year-to-year and month-to-month basis. The

unemployment rate has risen moderately so that its gap over the U.S. rate is at its narrowest in more than 10 years.

The travel and hotel industries took a huge hit from the falloff in both leisure and business travel. However, Los Angeles hotels did begin to see improved occupancies and revenue in early December. Travelers' confidence is expected to return completely by summer, bolstering travel and tourism.

The fallout in foreign trade also hurt Los Angeles. The value of both imports and exports passing through Los Angeles ports is down 10 percent and 20 percent, respectively from a year ago. Commercial construction continues to be slow. Downside risks continue in the commercial aerospace industry, however, defense aerospace will provide some moderate growth potential.

Orange County MSA 5945

Orange County is wholly contained in MSA 5945. Orange County has a population of 2.4 million in 484 census tracts (14 low-income, 118 moderate-income, 213 middle-income, 133 upper-income and 6 N/A) based on data from the 1990 U.S. Census. Low-and moderate-income tracts comprise 27.3 percent of the total tracts and 30.4 percent of the population. The HUD estimated median family income for 2000 and 2001 is \$69,600 and \$73,700, respectively. While the population is diverse, Whites constitute a majority of the population at 65 percent followed by Hispanics at 23 percent and Asians at 10 percent. Hispanics comprise the largest population living in low-and moderate-income areas.

Orange County has over 119,000 licensed small businesses. The percentage of businesses located in low-and moderate-income census tracts (29.9 percent) is slightly higher than the percentage of tracts. Commercial lending opportunities appear to be consistent across geographies by income level as reflected in Table 6.

Table 6 – Distribution of Small Businesses		
Census Tract	Number of Small Businesses	% of Total
Low-Income	4,668	3.9%
Moderate-Income	31,268	26.0%
Middle-Income	47,801	39.9%
Upper-Income	31,047	25.9%
Income N/A	5,137	4.3%
Totals	119,921	100.0%

Source: 2001 Dunn & Bradstreet

Top employers in Orange County include entertainment, higher education, and aerospace companies. Table 7 reflects the composition of the area's economy.

Table 7 – Industry by Total Employment and Average Annual Earnings Per Employee		
	% of Total Employment 2000	Average Annual Earnings Per Employee 1999
Services	31.4	35,481
Manufacturing	16.6	49,414
Retail and Wholesale Trade	24.5	38,783
Government	10.5	42,583
All Other	17.0	N/A

Source: Bureau of Labor Statistics, 2000 and Bureau of Economic Analysis 1999

Orange County's economy continues to expand with decelerating but still positive job growth, a low unemployment rate, and continued house price appreciation. The economy is decidedly weaker than one year ago, but Orange County will avoid recession if the U.S. economy is back on its feet by mid-2002. Its diverse economy and links to national and international markets will support it over the long term.

The events of September 11, 2001 hurt Orange County's transportation and tourism industries as well as its tech-related manufacturers. Rebound in demand for tech-related products is not expected until late next year. A continued shortage of housing and rising electric power costs also generates some downside risk to the economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Lending Activity

MFBB's lending activity reflects a good responsiveness to assessment area credit considering bank products, business strategy and focus, volume of lending, and local competition.

As exhibited in Table 8, a high percentage of small business loans made by the bank (excludes affiliate lending) were extended within the bank's assessment areas. For 2000 the ratios are 86.8 percent by number and 90.2 percent by dollar volume, and for 2001 the ratios are 91.6 percent by number and 92.2 percent by dollar volume.

Table 8 also shows that lending increased significantly by number and dollar volume within the AAs from 2000 to 2001. Management stated this increase is a direct result of a change in the CRA regulation, which now allows banks to report annually renewed small business lines of credit.

Table 8 – Distribution of Small Business Loans Inside and Outside of the Assessment Areas*										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2000	460	86.8	70	13.2	530	124,319	90.2	13,440	9.8	137,759
2001	788	91.6	72	8.4	860	271,370	92.2	22,883	7.8	294,253
Total	1,248	89.8	142	10.2	1,390	395,689	91.6	36,323	8.4	432,012

Source: Bank Records

**Excludes affiliate lending*

Performance within the Los Angeles-Riverside-Orange CMSA

The Los Angeles and Orange County AA consists of two contiguous MSAs: Los Angeles-Long Beach MSA 4480 and Orange County MSA 5945. These two MSAs are a part of the larger Los Angeles-Riverside-Orange CMSA 49 and are, therefore, combined for analysis purposes throughout this evaluation.

With five banking offices located in the Los Angeles and Orange County AA, this area represents:

- 83 percent of the institution's banking offices
- 92 percent of the total census tracts in all assessment areas
- 91 percent of the total population in all assessment areas
- 90 percent of the total households in all assessment areas
- 80 percent by number and 90 percent by dollar volume of all small business loan originations (including affiliate lending) within the assessment areas during the period reviewed

Geographic Distribution of Lending

Overall, MFBB's geographic distribution of loans reflects good penetration throughout the Los Angeles/Orange County assessment area. The loan distribution shown in the following tables include affiliate lending within the AA. There are no conspicuous gaps in the geographic distribution of small business loans.

Tables 9 and 9a illustrate the geographic distribution of small business loans originated during the review period by number and dollar volume. As shown in Table 10, MFBB's distribution of small business loans for 2000, by number, reflects good penetration in both low- and moderate-income (LMI) geographies. Lending in LMI census tracts for 2000 is comparable to and just slightly higher than the aggregate data for all lenders within the AA.

The table also shows a slightly increasing trend of loans in LMI geographies extended within the AA from 2000 to 2001. This performance exhibits the bank's commitment to providing small business loans in low- and moderate-income areas within this AA.

Table 9 – Distribution of Small Business Loans by Income Category of the Census Tract in Los Angeles/Orange County Assessment Area							
Census Tract Income Level	Aggregate Data % of # 2000	2000		2001		Total	
		#	%	#	%	#	%
Low	6.6	306	8.0	345	8.5	651	8.2
Moderate	18.2	792	20.6	861	21.1	1,653	20.9
Middle	34.2	1,174	30.6	1,365	33.5	2,539	32.1
Upper	40.0	1,466	38.2	1,404	34.4	2,870	36.2
N/A	1.0	102	2.6	105	2.5	207	2.6
Total	100.0	3,840	100.0	4,080	100.0	7,920	100.0

Source: CRA Disclosure Statements (2000), CRA Aggregate Data (2000) and Bank Records (2000 & 2001)

Also, as shown in Table 9a, MFBB's distribution of small business loans by dollar amount reflects good penetration in both LMI geographies. Lending in low-income census tracts for

2000 is comparable to the aggregate data for all lenders within the AA. Lending in moderate-income census tracts for 2000 exceeds the aggregate data for all lenders within the AA.

The table also shows a slight increasing trend of loans in low-income geographies extended within the AA from 2000 to 2001. For moderate-income geographies, the lending decreased slightly but is reasonable and indicates the bank's overall commitment of extending small business loans in low- and moderate-income areas within this AA.

Table 9a – Distribution of Small Business Loans by Income Category of the Census Tract in Los Angeles/Orange County Assessment Area							
Census Tract Income Level	Aggregate Data % of \$ 2000	2000		2001		Total	
		\$ (000s)	%	\$ (000s)	%	\$ (000s)	%
Low	10.5	24,860	10.5	48,318	12.5	73,178	11.7
Moderate	22.2	69,214	29.3	108,242	28.0	177,456	28.5
Middle	32.2	67,731	28.7	125,938	32.6	193,669	31.1
Upper	33.5	69,344	29.3	95,252	24.6	164,596	26.4
N/A	1.6	5,151	2.2	9,003	2.3	14,154	2.3
Total	100.0	236,300	100.0	386,753	100.0	623,053	100.0

Source: CRA Disclosure Statements (2000), CRA Aggregate Data and Bank Records (2000 & 2001)

Lending to Businesses of Different Sizes

The bank began including affiliate lending in its CRA reportable loans in 1998. This had a significant impact on the volume of small business loans reported by the bank. Affiliate loans include insurance premium financing loans and related business-lending lines. These loan products represent a majority of the institution's reportable loans. Revenue information is not obtained and is usually unavailable for insurance premium financing loans. When revenue is known (approximately 53 percent of all loans), approximately 15 percent of the number of loans were made to borrowers with revenues of \$1 million or less. Therefore, given the limited number of loans where the revenue was known, the bank's small business loan originations were analyzed by loan size as a proxy for the size of the business financed.

The distribution by loan size reflects, given the product lines offered by the bank and its business strategy, good penetration among different loan sizes. As shown in Table 10, in 2000, approximately 87 percent of the number of small business loans originated within the Los Angeles/ Orange County AA had original balances of \$100,000 or less. This is less than the aggregate data for all lenders within this AA for 2000 but reasonable given the bank's business focus and strategy. The average loan size in this category is approximately \$17,000. This indicates the bank is extending small business loans in its communities.

In 2001, the percentage with original loan balances of \$100,000 or less dropped from the 2000 performance, and the loan size of between \$100,000 and \$1 million increased. This is a result of the change in the CRA regulation where banks are permitted to report the annual renewals of business lines of credit. The bank's own direct lending targets businesses with annual revenues ranging from \$5 to \$100 million, and larger businesses typically require larger dollar loans.

Table 10– Distribution of Small Business Loans by Loan Size – Los Angeles/Orange County Assessment Area							
Loan Size (000s)	Aggregate Data % of # 2000	2000		2001		Total	
		#	%	#	%	#	%
≤ \$100	95.6	3,332	86.8	3,273	80.2	6,605	83.4
> \$100							
≤ \$250	2.0	251	6.5	342	8.4	593	7.5
> \$250							
≤ \$1,000	2.4	257	6.7	465	11.4	722	9.1
Total	100.0	3,840	100.0	4,080	100.0	7,920	100.0

Source: CRA Analyzer, CRA data collection (2000 & 2001), and CRA Aggregate Data (2000)

As shown in Table 10a, in 2000, approximately 24 percent of the dollar volume of small business loans originated within the Los Angeles/Orange County AA had original balances of \$100,000 or less. This is less than the aggregate data for all lenders within this AA for 2000 but good given the bank's business focus and strategy.

In 2001, the percentage with original balances of \$100,000 or less dropped from the 2000 performance and the loan size of between \$100,000 and \$1 million increased. As stated above, this is a result of a change in the CRA regulation, as well as the bank's business focus.

Table 10a– Distribution of Small Business Loans by Loan Size – Los Angeles/Orange County Assessment Area

Loan Size (000s)	Aggregate Data % of \$ 2000	2000		2001		Total	
		\$	%	\$	%	\$	%
≤ \$100	39.2	56,132	23.7	62,612	16.2	118,744	19.0
> \$100							
≤ \$250	13.0	43,625	18.5	60,827	15.7	104,452	16.8
> \$250							
≤ \$1,000	47.8	136,543	57.8	263,314	68.1	399,857	64.2
Total	100.0	236,300	100.0	386,753	100.0	623,053	100.0

Source: CRA Analyzer, CRA data collection (2000 & 2001), and CRA Aggregate Data

Lending to Borrowers with Different Income Levels

Credit services offered by the bank do not typically include home mortgage loans; however, the institution makes this type of credit available as an accommodation to existing commercial customers. A limited review revealed that the bank originated only 6 home mortgage-related loans during the two-year period reviewed. Consequently, no meaningful conclusions could be drawn from such limited lending activity.

Comparison to Similarly Situated Institutions

No other institutions were found to have similar characteristics to MFBB. While several institutions of similar asset size target small to medium-sized businesses within MFBB's assessment areas, no other institutions have the volume of affiliate lending to make a comparison.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

MFBB's policies, procedures, and training programs designed to prevent discriminatory or other illegal credit practices were reviewed. No substantive violations of the anti-discrimination laws were identified.

COMMUNITY DEVELOPMENT LENDING

The bank pursues community development lending activities through its relationships with various nonprofit organizations and corporations. Most notably, the bank provides funding to community development financial institutions that provide loans to non-profits for affordable housing and to small businesses. The bank also provides direct financing to non-profits that serve LMI individuals for housing, social services, and education. To assist in economic development and revitalization, MFBB partners with state, county, and local agencies that promote small business and community redevelopment. The volume, diversity, and complexity represented by the bank's community development loans indicate management's willingness to fund loans for the benefit of LMI individuals and small businesses.

Overall, the institution has originated a very high level of community development loans. Table 11 summarizes the bank's community development lending activity in the Los Angeles/Orange County assessment area since the previous evaluation.

Table 11 – Qualified Community Development Lending Activity		
Loan Description	Number of Loans	Dollar Volume of Loans (000s)
<i>Affordable Housing</i>	4	\$4,686
<i>Economic Development</i>	1	90
<i>Consortia Lending – Small Business and Economic Development</i>	100	368
<i>Consortia Lending – Affordable Housing</i>	39	596
<i>Non-profit Community Organizations</i>	9	2,965
<i>Revitalization and Stabilization</i>	9	20,525
Total	162	\$29,230

Source: Bank records

The following community development loans and commitments are of particular note:

- A \$1 million loan was made in 2000 supporting a home ownership program in Los Angeles formed to bring improvements to distressed communities. The loan enables the non-profit organization to purchase, rehabilitate and resell HUD foreclosed homes in selected low-and moderate-income communities in Los Angeles. This loan may also enable the organization to make community development loans to non-profit organizations in Los Angeles. This loan is unsecured, at a below-market rate of interest, and for a term of three years. MFBB utilized the Bank Enterprise Award in order to provide a below-market interest rate.
- MFBB provided financing in the amount of \$1,650,000 to a customer to acquire a 47,247 square foot office building in a low-income census tract at the convergence of Little Tokyo, Toytown and the Artist District of downtown Los Angeles that had been vacant for 10 years.

The building has been renovated and is now in lease-up. The building will bring new jobs to the area and will help revitalize and stabilize the community.

- MFBB provided construction financing of \$8,505,000 for a retail center as well as financing for environmental remediation of \$800,000 and a property loan of \$630,000 on the portion of the site that is proposed for senior housing. The center is located in a redevelopment zone for the City of Signal Hill and is adjacent to a LMI portion of Long Beach. The city sought for many years to convince a supermarket to locate within its borders to serve its citizens in surrounding low-income neighborhoods. The retail center will have a Food 4 Less as the anchor tenant. The food store expects to offer business opportunities and employment to low-income residents of the surrounding area. City participation in the project included the use of eminent domain to assemble the entire site and reimbursement for public improvements, developer impact fees, on-site remediation work and re-abandonment of 55 oil wells.
- MFBB provided financing in the amount of \$1,458,000 to an advertising agency to acquire and renovate the former city hall building in downtown Santa Ana, in order to relocate their headquarters from Irvine. The building is located in a low-income census tract and within the Santa Ana Enterprise Zone. The renovation of the 41,625 square foot building will provide business to local retailers and encourage other businesses to reinvest in old buildings in downtown Santa Ana, helping to revitalize the area.
- In 2001, the bank increased its line of credit by \$1,260,377 to a total of \$3.6 million to a California community reinvestment corporation that provides financing for multi-family affordable housing projects throughout California using the form of a bank lending consortia. The corporation originated 38 loans totaling almost \$47 million for 2,179 affordable housing units. MFBB's pro-rata share was \$596,000. Although this consortium serves a broader statewide area, the bank is given full credit since it includes the bank's assessment area.
- The bank renewed its \$724,000 commitment to a California community development corporation (CDC) toward to an economic development lending initiative, a statewide for-profit lending consortium sponsored by California financial institutions. The consortium provides financing to support small businesses and community economic development activities that would not normally qualify for conventional bank financing. Emphasis is placed on women and minority-owned businesses. During the period reviewed, the organization originated 83 loans for \$26.4 million. MFBB's pro-rata share totaled \$277,419 under this facility. These loans are located in northern and southern California. Although this consortium serves a broader statewide area, the bank is given full credit for these loans since it includes the bank's assessment area. Loans funded in the San Diego area are shown separately under the Community Development Lending section for the San Diego assessment area.
- The bank provided funds to a community financial resource center that promotes economic development by providing financing for small businesses located in Los Angeles County that are unable to obtain conventional bank loans through a loan fund. MFBB's share of the fund

is \$120,000 funded over a three-year period. During the evaluation period, the center originated 21 small business loans totaling \$1.6 million. The bank's pro-rata share of these loans is \$81,000.

- MFBB provided financing in the amounts of \$3,110,000 and \$1,026,520 to facilitate the purchase of property by an iron works company in order to relocate its business to a larger space in Los Angeles' Mid-Alameda Enterprise Zone. The new facility will allow the company to increase their staff by 50 percent or 32 people to meet growing demand for the company's products. The bank reduced the interest rate on this loan resulting from the ongoing tax credit the bank receives for lending in the Enterprise Zone.
- MFBB provided a real estate loan in the amount of \$1,462,500 to a Los Angeles regional foodbank, which feeds over 225,000 people each week through their network of 825 charities. The loan was used to acquire two industrial buildings totaling 25,721 square feet to be used in a new food reclamation program entered into with local supermarkets. In the program, the supermarkets will transport overstock food to the food bank where it is logged in, sorted and then stored for pickup by local charities.
- MFBB financed the down payment on two HUD Section 8 apartment buildings with an unsecured loan in the amount of \$1,400,000. The owners will bring improved management to these properties and will preserve affordable housing in these communities.

MFBB maintains credit facilities that are renewed annually to community organizations that provide services to low-and moderate-income individuals and communities. These include loans to organizations that assist at risk youth and individuals with disabilities that are predominately from LMI families.

Flexible Lending Practices

The bank continues to make use of flexible lending practices in order to serve LMI consumers and small businesses within its assessment areas. These programs are noted below.

- In response to an identified need, the bank continues to offer a small real estate loan program. The program is designed to meet the needs of small business owners to finance commercial or industrial property and multi-family housing property of five or more units located in LMI census tracts throughout the bank's AAs. The program offers a maximum loan amount of \$500,000, simplified application process, and competitive rates with no loan fees. Since the previous evaluation period the bank funded 4 loans totaling \$769,000. Management states the reason for the limited activity is that it has not marketed the program.
- The Bank participates in several co-lending programs. These programs allow the bank to meet the financing needs of small businesses in a way that they would be unable to do on their own. During the evaluation period the bank originated \$13.9 million in loans in conjunction with the SBA 504 program. MFBB provided gap financing on many of these

loans pending funding by the SBA. The bank also originated 3 loans in conjunction with a California economic development lending initiative. The bank's portion of the loans totaled \$4.75 million. The bank maintains relationships with several other lenders for co-lending purposes.

- MFBB received a \$244,100 Bank Enterprise Award from the U.S. Department of Treasury Community Development Financial Institutions Fund (CDFI). This is the first such award received by MFBB. The award acknowledges the Bank's support in providing below-market interest rate loans and investments to Community Development Financial Institutions (CDFIs). The Bank utilized the Bank Enterprise Award Program (BEA) in 2000 to augment the bank's capacity to provide \$2,090,000 in loans to CDFIs at below market rates for community development purposes. The program requires application and award processes.
- The Bank also offered flexible terms including below-market interest rates and non-standard terms to several small business lending programs. These include a bankers small business Community Development Corporation in San Diego (\$10,000) and a community financial resource center (\$120,000). Flexible lending is also demonstrated by providing unsecured financing to several non-profit organizations providing community services including a charter school.
- The Bank's affiliate also demonstrates flexible lending. Its insurance premium financing product makes use of a streamlined application process that does not require financial information for loans of \$250,000 or less. Through this loan product the bank is able to provide affordable premium financing to many small businesses.

Investment Test

Mellon 1st Business Bank's overall level of qualified community development investments including affiliate investments in the Los Angeles/Orange assessment are considered excellent. Total qualified investments, grants and donations outstanding increased significantly, from \$6.4 million in 1999 to \$56.5 million for this evaluation period. The bank's investments are highly diverse and demonstrate the bank's willingness to support new investment products with complex structures in order to meet the affordable housing and small business needs within the bank's assessment areas.

Table 12, on the next page, illustrates the bank's total qualified investment and grant activities outstanding in the Los Angeles/Orange County assessment area.

Table 12 – Description of Qualified Investment Activity	Number	Dollars (000's)
<i>Affordable Housing Bond Finance Fund</i>	1	67
<i>Affordable Housing Low Income Housing Tax Credits</i>	2	2,194
<i>Mortgage-Backed Securities Targeted to LMI Individuals</i>	14	12,255
<i>Financial Intermediaries</i>	3	190
<i>Venture Capital</i>	8	41,625
<i>Total Debt or Equity Investments</i>	28	56,331
<i>Other Qualified Grants and Donations</i>	136	208
<i>Total Qualified Grants and Donations</i>	136	208
<i>Grand Total</i>	164	56,539

Source: Bank Records

The types of qualified investments held by the bank and its affiliates directly respond to affordable housing, small business and community development projects within MFBB's assessment areas. These particular investments are described below:

Affordable Housing Bond Finance Fund

MFBB committed \$600,000 to a California community reinvestment corporation's new low-income housing bond finance fund that will provide access to 4 percent tax credit equity and permanent financing at competitive tax-exempt rates to the consortia's clients. This type of financing has not been readily available to developers of projects requiring financing in the \$1-3 million range because of the high costs associated with the issuance of tax-exempt bonds. During the examination period, three low-income housing projects totaling 132 units were financed through the bond finance fund. MFBB's pro-rata share for the Los Angeles area totaled \$67,352.

Affordable Housing Low Income Housing Tax Credits

- A low-income housing tax credit offering was purchased through a California realty limited liability corporation. This commitment totaled \$1,203,421 and resulted in the construction or renovation of 120 apartment units designated for rental to low- and moderate-income individuals in urban areas of Los Angeles. These projects meet the specialized needs of HIV/AIDS patients and their families, of abused women and their families, and of seniors through the services that will be provided by their non-profit sponsors and various other organizations. The projects included both rehabilitation and new construction. To date, no advances have been made under this commitment.
- The bank has continued to fund and hold two existing low-income housing tax credit investments in California properties. These investments totaled \$5.5 million and resulted in the construction or renovation of apartment units designated for rental to LMI individuals.

The book value of the investment allocated to the Los Angeles AA as of December 31, 2001 was \$2.2 million.

Mortgage-Backed Securities Targeted to LMI Individuals

During the examination period, 14 pools of mortgages backed by low- and moderate-income, 30-year conventional mortgages with book values totaling approximately \$15 million were purchased. One hundred percent of the borrowers of these mortgage loans earn 80 percent or less of the median income of the respective MSAs as defined by HUD and are located within the bank's AAs. The portion of the pools located in the Los Angeles and Orange County MSAs totaled \$12.3 million.

Financial Intermediaries

- A \$10,000 equity equivalent investment was made in a social investment foundation. This was an initial program offered to work with financial institutions on community development investments. The equity equivalent investment is at a zero rate of interest for a minimum period of 7 years. The bank also committed \$90,000 in a community development loan at a below-market rate of interest, which is reflected under the Community Development Lending section of this evaluation. The funds were relent to nonprofit organizations in Southern California that provide financing for affordable housing and small business credit needs.
- The bank continues to hold an equity investment totaling \$100,000 in a California economic development lending initiative, a state-wide business loan consortium that was formed to provide financing to small businesses throughout California which includes the bank's AAs. The bank also committed \$724,000 to a loan pool for this consortium that is reflected under the Community Development Lending section of this evaluation.
- The bank continues to hold an \$80,000 equity investment in a Southern California small business development corporation (SBDC). The SBDC continues its mission through loans totaling \$3 million to a Los Angeles lending development corporation, a non-profit organization that re-lends the funds to small businesses for community development purposes. The most recent loan to this corporation is reflected as a community development loan under the Community Development Lending section of this evaluation.

Venture Capital

Equity venture capital investments in small businesses located in the bank's assessment areas were made through the bank's small business investment corporation (SBIC) licensed affiliate, Mellon Ventures. Investments were made in eight companies totaling \$41.6 million. These investments support the revitalization of LMI areas with 80 percent of the companies and 65 percent of the dollars invested in LMI areas.

Qualified Grants and Donations

Mellon 1st Business Bank provided grants and donations to various community organizations that have as their primary purpose community development. These organizations serve economic development needs and provide affordable housing, youth programs for at-risk youth, education programs serving LMI individuals, social services to the homeless, the abused and the disabled youth, and healthcare services to LMI individuals within the bank's assessment areas. Examples include the following:

- \$10,000 total to two organizations for the SBA micro loan program. The program provides small business loans up to \$25,000 to businesses that do not qualify for conventional bank financing. The loan loss reserve enables the sponsoring organizations to access low cost funding through the U.S. Small Business Administration. During 2000 the program originated 41 loans to small businesses for a total loan amount of \$545,000. Loan data for 2001 is not yet available.
- \$5,000 to a local neighborhood housing service, a CDFI. The loan fund provided financing to merchants for leasehold improvements and working capital to start their businesses.
- \$24,270 to three organizations all provide comprehensive social services to the homeless. The bank held an annual auction for the bank's employees of bank memorabilia and other items to raise additional funds for two of the organizations.
- \$5,300 for a community financial resource center, a community development financial institution in Los Angeles that provides financing programs for small businesses, micro-lending programs, technical assistance, computer training, credit counseling, homebuyer programs, etc.
- \$7,500 for a Los Angeles women's foundation. The foundation achieves its mission through strategic grants, technical assistance, and education and advocacy programs with local non-profit organizations serving LMI women. Programs address the needs in women's healthcare, economic literacy, and violence against women. Mellon West funded \$2,500 of the grant.
- \$2,000 for a non-profit organization's financial literacy program for elementary, intermediate and senior-high school students located primarily in low-and moderate-income neighborhoods in Los Angeles. Mellon West funded \$1,000 of the grant.

SERVICE TEST

Retail Banking Services

Accessibility of Delivery Systems

MFBB's services, business hours, and alternate delivery systems within the Los Angeles/Orange County AA are accessible to essentially all portions of this community. All branches offer commercial and real estate commercial and industrial loans, consumer loans, small business loans, international credit, and retail deposit services. Table 13 reflects the breakdown of branches by census tract income level for the Los Angeles/Orange County AA.

The percentage of branches in both low- and moderate-income census tracts is lower than the number of census tracts located in low- and moderate-income geographies in the bank's assessment areas. This is as the result of the re-location of the Orange County branch from a moderate-income census tract to a census tract that is N/A.

Table 13 - Distribution of Branches by Census Tract Income Level				
Census Tract Designation	Census Tracts in Assessment Area	% of Total Census Tracts	Number of Branches	% of Total Branches
Low	161	7.5	0	0.0
Moderate	495	23.2	1	20.0
Middle	757	35.4	1	20.0
Upper	698	32.7	2	40.0
\$0/NA Income	25	1.2	1	20.0
Total	2,136	100.0	5	100.0

Source: Bank Records and CRA Wiz

Changes in Branch Locations

Since the previous evaluation, the bank relocated its Orange County office from Irvine to Newport Beach. The change did not impact the accessibility of the bank to businesses in Orange County. Management maintains a branch closing policy in the event of a branch closure.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

MFBB offers a wide variety of financial services to its business customers at its Headquarters Office and through its branch network. These services include checking and savings accounts, certificates of deposit, and retirement accounts. The bank's hours of operation are tailored to meet the needs of its customers and assessment areas. All offices are open from 10:00 AM to 3:00 PM Monday through Friday. Branch personnel are also available to provide personal attention by telephone from 8:00 a.m. to 5:00 p.m. Monday through Friday. Services do not vary in a way that inconveniences certain portions of the bank's assessment areas, particularly low- and moderate-income geographies.

Alternative Delivery Systems

Automated Teller Machines (ATM)

The bank does not have its own ATMs. MFBB offers an ATM card for checking account holders. The bank currently participates in the Plus ATM network. Customers can use their ATM card to withdraw cash from participating network locations. The bank does not assess any charges for the use of an ATM card.

Telephone Voice Response System

The bank provides a "toll free" 24-hour touch-tone banking telephone service for customers to obtain account balances and latest account activities.

Bank by Mail

The bank offers bank-by-mail services to its customers. The bank provides customers with pre-addressed postage-paid envelopes for this service.

Courier Service

The bank offers courier service to its customers. As the customer's request, the bank and customer may jointly sub-contract with a bonded courier to pick up customer deposits and other bank correspondence and deliver them to a branch or the headquarters office for processing. The costs for this service are charged to the customer.

Lock-box Services

The bank offers lock-box services for its business customers. The lock-box service includes the pick up of remittances from the post office box several times each business day and delivery to the Wholesale Lock-box Department at the bank's premises.

PC Based Cash Management

The bank offers a PC-based cash management product as well as a browser-based product for its business customers. Both products allow customers to initiate domestic and international funds transfers, inter-bank transfers, stop payments, prior and intra-day reporting of balances, and the capability to initiate ACH transactions.

Web Site

The bank maintains a non-transactional web site that provides information on the bank's products and services.

Community Development Services

The bank is a leader in providing community development services. There is strong participation in community development services by a wide range of the MFBB staff. Over 45 percent of the officers at a level of Vice President and above are active in community development services. This activity is strongly supported by senior management.

Table 14 lists examples of the types of community development services provided by the bank since the previous evaluation in the Los Angeles/Orange County Assessment Area. All of the services listed below meet the definition of "community development" and also relate to the provision of financial services as required by the regulation for consideration under the CRA.

Table 14 – Community Development Services			
Brief Service Description	Bank Sponsored Event, Program or Seminar	Technical Assistance or Direct Involvement by Bank Employee	Bank Product or Service
Two bank officers and a director serve on boards and provide technical assistance to organizations that assist the homeless.		X	
Bank officer serves on the advisory board and mentor students in an internship program of a finance academy serving students from low- and moderate-income areas.	X	X	
Bank officer serves on the loan advisory committee for an organization that provides working capital and business assistance to small businesses.		X	
Bank officer is treasurer of an affordable housing project serving low-income seniors and a transitional housing project serving low-income families with minor children.		X	
Bank officer serves on the board of an organization that makes loans for affordable housing.		X	
Bank officer chairs a banker's task force to raise funds for the loan loss reserve of a SBA micro loan program.		X	
Nine bank officers and employees participate in a financial literacy program for students in low- and moderate-income areas		X	

Source: Bank Records

Bank staff expended over 1,080 hours in 2000 and 1,200 in 2001 or a total of more than 2,400 hours during the evaluation period in providing technical assistance to various organizations within the Los Angeles/Orange County AA. A few of the more significant types of community development services provided by the bank are detailed as follows:

- A bank officer serves on the board as vice chairman of an organization that assists the homeless of Los Angeles find jobs and permanent housing. The organization operates a housing facility and provides employment placement. It also operates an industrial building that houses small businesses, training and employing residents of the local community.

There is a transition house that provides janitorial services to local businesses using residents and graduates of the transition house project.

- A bank officer serves on the advisory committee, prepares the budget, and assists in fundraising for an academy of finance that is comprised of local high schools in predominately low- and moderate-income areas of Los Angeles. Another bank officer works directly with students, hired by the bank from the academy, as a mentor for the career internship program.
- A bank officer is a board member and provides assistance for budgeting and program development of an organization in Los Angeles that fosters support of positive adult male role models to fatherless boys from low- and moderate-income families.
- A bank officer serves on the board and budget/finance committee of an organization in Orange County that provides LMI individuals with disabilities the opportunity to achieve their highest level of personal and economic independence.
- A bank officer is a board member and provides technical assistance on financial matters to a nonprofit educational facility primarily serving LMI students.
- Nine bank employees participate in a financial literacy program for students located in schools serving low-and moderate-income communities. The program instructs the students about the basics of money, checking and savings accounts, loans, credit history and investments
- A bank officer serves as chairman of a banker's task force to support the SBA micro-loan program in Los Angeles. In addition to raising \$90,000 in loan loss reserve funds that kept the sole Los Angeles micro-loan program operational for 1 ½ years, the task force is working with the SBA to reinterpret the funding of the loan loss reserve to include new types of flexible investments in order to maximize the reach of the micro-lending program nationally. The officer received a "Service Award" from the participating non-profit organization for her efforts.

METROPOLITAN AREA

Metropolitan Statistical Area Using Limited Scope Examination Procedures

Scope of Examination

The second AA for MFBB was reviewed utilizing limited scope off-site examination procedures. The AA consists of a portion of San Diego County. Loans reported pursuant to CRA data collection requirements, including affiliate loans, were considered in the review of the bank's performance. The review was limited to loan originations, since the bank has not purchased any loans. For reasons previously mentioned, consumer and HMDA loans were not reviewed. Also, the bank ceased operations of its one branch in San Diego County in December 2001.

DESCRIPTION OF OPERATIONS IN THE SAN DIEGO ASSESSMENT AREA

San Diego Assessment Area MSA #7320

The San Diego AA is contained within MSA 7320. The bank's AA contains 179 census tracts or 40 percent of the 445 census tracts in the San Diego MSA. This area is the smallest of the bank's two assessment areas. The AA consists of 2 (1 percent) low-income, 23 (13 percent) moderate-income, 78 (44 percent) middle-income, and 76 (42 percent) upper-income census tracts. Area population, based on the 1990 Census, is estimated at 1,098,976 residents and 413,466 households. Based on estimates from HUD, the 2000 and 2001 adjusted median family income is \$53,700 and \$56,900, respectively. The AA consists of whole census tracts and does not arbitrarily exclude any LMI census tracts. The assessment area described above contains various financial intermediaries that offer opportunities for financial institutions to initiate community development activities and enhance CRA performance.

The San Diego AA contains one MFBB banking office (opened June 1999 and closed December 2001) and accounts for:

- 17 percent of the institution's banking offices
- 8 percent of the total census tracts in all assessment areas
- 9 percent of the total population in all assessment areas
- 20 percent by number and 10 percent by dollar volume of total small business loan originations (including affiliate lending) within all assessment areas during the evaluation period.

LENDING TEST

The bank's lending in the San Diego AA is a minor portion of the bank's lending performance. The bank's performance in this AA is consistent with the bank's overall performance. The bank's one branch (closed in December 2001) extended a total of 1,948 small business loans (including affiliate lending) during the review period. There were no conspicuous lending gaps noted in this assessment area.

Community Development Loans total 34 by number for a total of \$21,673. These loans benefit small businesses and economic development in the area. The loans are detailed below.

- The bank provided funds to a banker's small business community development corporation in San Diego that provides financing for small businesses that are unable to obtain conventional bank loans through a loan fund. MFBB participated in loan pool #7 in the amount of \$11,000. This loan was structured significantly different from prior pools in order to reduce the costs of raising capital and to make the program self-sustaining within 10 years. The loan is revolving for a 10-year term and the interest rate is below market. During the evaluation period the corporation originated 30 small business loans totaling \$1 million. The bank's share of these loans is \$9,234.
- The bank renewed its commitment to a California CDC toward an economic development lending initiative, a statewide for-profit lending consortium sponsored by California financial institutions. The consortium provides financing to support small businesses and community economic development activities that would not normally qualify for conventional bank financing. Emphasis is placed on women and minority-owned businesses. During the period reviewed, the organization originated 83 loans for \$26.4 million. MFBB's pro-rata share in the San Diego area totaled \$12,439 under this facility.

INVESTMENT TEST

MFBB's performance in the San Diego assessment area is consistent with the performance in the Los Angeles/Orange assessment area. During the review period, qualified community development investments, grants and donations totaled 23 for \$3.1 million.

Table 15 below summarizes the investments and donations specific to the San Diego County assessment area.

Table 15 – Description of Qualified Investment Activity	Number	Dollars (000's)
<i>Affordable Housing Bond Finance Fund</i>	1	30
<i>Affordable Housing Low Income Housing Tax Credits</i>	1	230
<i>Mortgage-Backed Securities Targeted to LMI Individuals</i>	11	2,759
<i>Financial Intermediaries</i>	2	105
<i>Total Debt or Equity Investments</i>	15	3,124
<i>Other Qualified Grants and Donations</i>	4	5
<i>Total Qualified Grants and Donations</i>	4	5
<i>Grand Total</i>	19	3,129

Source: Bank Records

The types of qualified investments held by the bank directly respond to affordable housing, small business needs, and community development projects within the assessment area. Some highlights of the qualified investments identified in the table above are described in detail below.

Affordable Housing Bond Finance Fund

MFBB committed \$600,000 to a California community reinvestment corporation's new low-income housing bond finance fund that will provide access to 4 percent tax credit equity and permanent financing at competitive tax-exempt rates to the consortia's clients. This type of financing has not been readily available to developers of projects requiring financing in the \$1-3 million range because of the high costs associated with the issuance of tax-exempt bonds. During the examination period, three low-income housing projects totaling 132 units were financed through the bond finance fund. MFBB's pro-rata share for the San Diego area totaled \$30,362.

Affordable Housing Low Income Housing Tax Credits

- The bank has continued to fund and hold two existing low-income housing tax credit investments in California properties. These investments totaled \$5.5 million and resulted in the construction or renovation of apartment units designated for rental to LMI individuals. The book value of the investment allocated to the San Diego AA as of December 31, 2001 was \$230,000.

Mortgage-Backed Securities Targeted to LMI Individuals

During the examination period, 14 pools of mortgages backed by low- and moderate-income, 30-year conventional mortgages with book values totaling approximately \$15 million were purchased. One hundred percent of the borrowers of these mortgage loans earn 80 percent or less of the median income of the respective MSAs as defined by HUD and are located within the bank's AAs. The portion of the pools located in the San Diego MSA totaled 11 by number worth \$2.8 million.

Financial Intermediaries

- A \$100,000 deposit was made in a community development bank that serves low-and moderate-income communities in San Diego. The deposit is at a below market rate of interest.
- The bank continues to hold a \$5,000 equity investment in a bankers small business community development corporation (CDC). The CDC provides financing to small businesses throughout San Diego County. The bank also committed \$11,000 to a loan pool for this consortium that is reflected as a community development loan under the Community Development Lending section of this evaluation.

SERVICE TEST

The bank's service test performance in this assessment area is consistent with its service performance overall. Bank staff expended a total of more than 50 hours during the evaluation period in providing technical assistance to various organizations within the San Diego AA.

APPENDIX A

SCOPE OF EXAMINATION:

Mellon 1st Business Bank
SCOPE OF EXAMINATION: Full Scope
TIME PERIOD REVIEWED: 2000-2001
PRODUCTS REVIEWED: Small business loans (including affiliate loans) as recorded on the bank's 2000 and 2001 CRA Data Register.

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
Not Applicable		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
Los Angeles County /Orange County	Full Scope	None	
San Diego	Limited Scope	None	

APPENDIX B - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates that update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX C - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. In addition, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro-enterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies. (Source: Community Development Corporations and the Federal Reserve, Low-Income Housing Tax Credits by the Connecticut Housing Finance Authority.)

APPENDIX D - STANDARD PE LANGUAGE

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.